

BEFORE THE  
POSTAL REGULATORY COMMISSION

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Periodic Reporting  
(Proposal Thirteen)

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Docket No. RM2015-7

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UNITED PARCEL SERVICE, INC.'S REPLY TO  
RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
COMMISSION ORDER NO. 2792

(March 4, 2016)

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United Parcel Service, Inc. ("UPS") respectfully submits this reply to the Response filed on February 16, 2016 by the United States Postal Service ("Postal Service Response") regarding Commission Order No. 2792.

**I. OVERVIEW**

In Docket No. RM2015-7, the Postal Service submitted Proposal Thirteen, a costing model for city carrier street time. UPS filed initial comments and reply comments, which included the presentation of an alternative approach to cost attribution that would evaluate all Postal products in a single model, relying upon operational data collected in the ordinary course of business.

In Order No. 2792, the Commission stated that "the UPS approach holds the potential to remedy many of the measurement problems that arise from the use of separate models for parcel delivery." See Dkt. No. RM2015-7, Order No. 2792 at 65 (Oct. 29, 2015). Given existing limitations in the Postal Service's volume data for parcels, collections, and accountables, however, the Commission approved Proposal Thirteen, while acknowledging that the UPS approach warrants further consideration.

The Commission directed the Postal Service to, among other things, “collect the information needed to determine whether a single model could produce improved estimates of variability.” *Id.* The Commission also specifically directed the Postal Service to explore the steps required to capture accurate daily letter route volumes of collection mail, in-receptacle parcels, deviation parcels, and accountables mail. Finally, the Commission directed the Postal Service to address the feasibility of updating the cost model used to assign the costs of Sunday delivery hours and parcel routes. See *id.* at 66.

The Postal Service’s response to these directives principally offers reasons why the Postal Service purportedly cannot collect parcel and collection mail volume data capable of supporting a single model, instead of identifying ways that its data collection practices can be improved. In fact, as discussed further below, the ability of the Postal Service to improve its data collection practices with regard to these volumes is not nearly as limited, and the cost of doing so is not nearly as prohibitive, as the Postal Service suggests.

The model accepted in Proposal Thirteen was a small step forward from the outdated model previously in effect, but it still has many limitations, including the fact that it relies upon data collected over a mere two weeks in a small number of ZIP Codes, and that it will rely on this data for an indeterminate period of time. As outlined below, there are workable solutions to the data issues raised by the Postal Service, and the Commission should instruct the Postal Service to implement or investigate these alternatives.

As both a business and a regulated entity, the Postal Service should strive to obtain accurate, comprehensive, and current costing data to enable better business and investment decisions. Return on investment and cost-benefit calculations are necessary to make decisions on product lines, capital expenditures, and resource allocations. A functioning business requires accurate cost measurement. Other Postal stakeholders have raised the issue of cost accuracy and transparency. See, e.g., Dkt. ACR2015, *Postal Commerce Reply Comments* at 6 (“The Postal Service’s answers only seem to confirm that the Postal Service does not understand the economic, market, or operational factors driving its cost Increases.”). From a regulatory standpoint, transparency and clarity about costs are also necessary. Rather than defending old cost methodologies based on outdated data, the Postal Service should embrace its ability to use current operational information to better understand its cost drivers.

## **II. THE POSTAL SERVICE LIKELY ALREADY HAS SUFFICIENT OPERATIONAL DATA FOR A UNIFIED MODEL.**

Most of the volume information necessary to implement a unified model<sup>1</sup> like the single model proposed by UPS, without the need for imputation, is available from the Postal Service’s Delivery Operations Information System (“DOIS”) dataset, which is updated daily in the ordinary course of business. The only additional information needed for the model is volume regarding four categories of Postal products: deviation parcels, in-receptacle parcels, accountables, and collection mail. Data on these four categories can be collected as outlined below.

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<sup>1</sup> A unified model is one that models all mail shapes in a single equation, obviating the need for special studies.

The Postal Service has been gathering Intelligent Mail Barcode (“IMb”) and Intelligent Mail Package Barcode (“IMpb”) data for several years. This data is gathered and submitted to the Postal Service’s Product Tracking and Reporting (“PTR”) system on a daily basis for millions of packages delivered each day, constituting the vast majority of packages delivered daily.<sup>2</sup> The PTR database also has operational data on accountables. See Postal Service Response at 7. As a result, aside from data on collections, the PTR database, in combination with DOIS data for the same time period, should be a source for all of the additional operational data needed for a unified model.

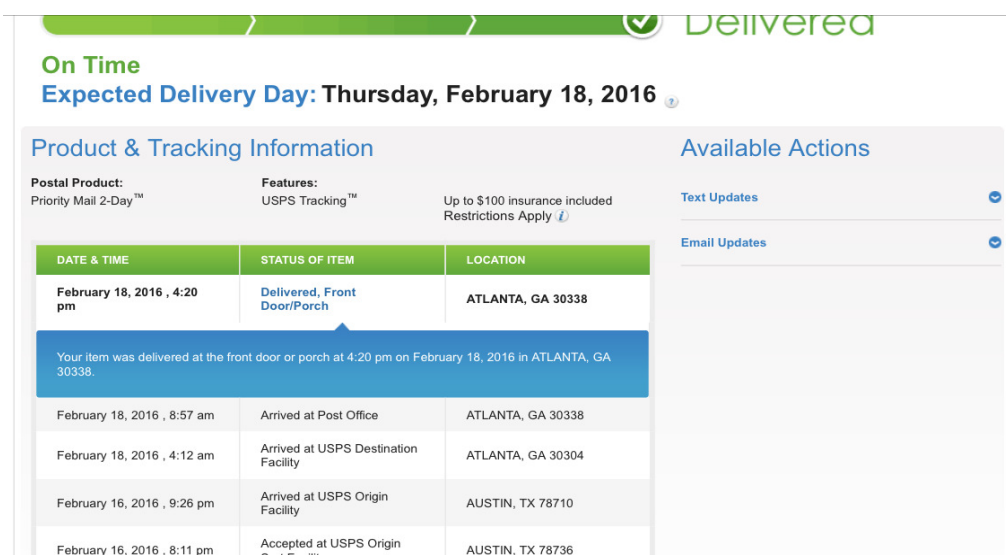
The Postal Service suggests that there may be unidentified quality problems with the PTR parcel data for deviation deliveries and in-receptacle deliveries — data that is collected from a Mobile Delivery Device (“MDD”). See *id.* at 8 (“Because the MDDs have only been fully deployed for a few months, the Postal Service has just started its thorough investigation into the accuracy of parcel counts by delivery location.”). This is surprising, given that the Postal Service already broadcasts delivery-type data from the MDDs to its customers. In fact, the Postal Service is likely transmitting millions of messages each day to mailers, indicating when and where packages are being delivered, including whether they were delivered to the mailbox (in-receptacle pieces) or to the doorstep or other location (deviation pieces).

Figures 1 and 2 below are examples of recent communications sent by the Postal Service to customers, including such details.

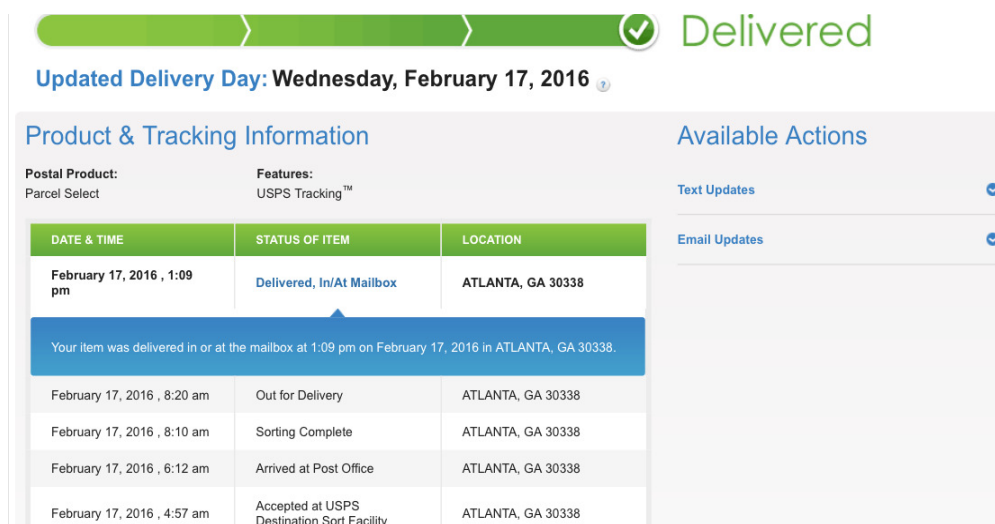
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<sup>2</sup> The Postal Service notes that five to seven percent of delivered parcels do not have tracking barcodes, but observes that “the proportion of parcels without tracking barcodes should decrease with time.” Postal Service Response at 8.

**Figure 1: Deviation Parcel**



**Figure 2: In Receptacle Parcel**



If such data is good enough for the Postal Service’s customers, and sufficient to demonstrate compliance with contractual obligations, it should be good enough to use in costing models. This means that the Postal Service already has sufficient operational data to estimate parcel and accountables volumes.

The Postal Service claims that collecting this operational data would be “extremely costly” due “to the large amounts of data that would have to be obtained,

stored, and analyzed.” Postal Service Response at 11. The Postal Service claims, for example, that it would need to download 6.2 million daily records, one for each in-receptacle parcel, deviation parcel, and accountable tracked by the MDD and PTR systems. *See id.* These concerns are overstated. The Postal Service does not need to analyze detailed records for every barcode in order to use daily operational data in a single model — it would only need, at most, three count variables for each of its 140,000 city letter routes.<sup>3</sup> Moreover, after the Postal Service is able to test this data over an initial time period, it likely could automate its process going forward, further simplifying data collection and analysis efforts.

As noted, the only missing operational data is data on collections. But the Postal Service likely has some form of operational data regarding the collection activities of its city carriers that could form the foundation of a modeling effort to approximate the necessary collection counts. Because it is unclear what collections data exists or how that data may be used, the Postal Service should disclose exactly what operational data on collections *is* collected.

Even if adequate collections data does not exist today, there are relatively simple and cost-effective methods the Postal Service could use to gather the collection volumes data it needs. In its response, the Postal Service highlights the burden of gathering daily data on “Collections” by city carriers, estimating a cost of \$100 million

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<sup>3</sup> The three count variables are the number of in-receptacle parcels, the number of deviation parcels, and the number of accountables delivered on each route on the day in question. The unified model (and indeed the current Proposal Thirteen model) relies only on ZIP Code level count data. There is no reason why detailed data for each package, including time and location data for the many times each parcel is scanned between origin and destination, are necessary for the purposes of the approach proposed by UPS.

per year to record route-level collections data. *See id.* at 12. The Postal Service reasons that an automated or semi-automated approach is impossible for collection volumes “[b]ecause of the pooling prior to the point the collection mail is processed by machine.” *Id.* at 10.

Even though the collections are pooled together before processing, however, there may be opportunities for a semi-automated process *before* the pooling. For example, one could measure the weight or linear feet of collection mail by route at the processing center before it is pooled on those route-days when collection volume data is measured. While that approach would not provide exact counts, it could provide reasonable estimates; indeed, linear measurements were used to approximate collection volumes in the collection mail study carried out for this docket.<sup>4</sup> This is just one example of how the Postal Service could develop reasonable procedures and approximations that will lead to better cost models.

In addition, the necessity of obtaining collection mail volume counts *prior* to automated processing is far from clear. Implementing the model proposed by UPS does not require volume counts at the carrier route level. All that is required are counts at the ZIP Code level. If counts at the pooling center level can be mapped to ZIP Codes — for example, if each pooling center serves a specific set of ZIP Codes — it might be possible to construct workable ZIP Code level proxies. The Postal Service should at least clearly explain what collection volume data it does collect or that it could readily generate so that these matters can be evaluated.

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<sup>4</sup> See Dkt. No. RM2015-7, *Report on the City Carrier Street Time Study* at 30 (Dec.11, 2014). Similarly, the Cased Mail volumes contained in DOIS and used in the current City Carrier costing model are linear measurements. See Dkt. No. RM2011-3, *Scoping Study Report of the United States Postal Service* at 15, 17 (May 25, 2012).

In summary, to facilitate the transition to a unified model, we suggest that the Postal Service provide, on a non-public basis, a small sample of the PTR data and corresponding DOIS data to see how it might be incorporated into a unified model. The Postal Service should also describe in detail any collection volume information that might be available, so that workable models for collection volumes could be developed and implemented. These concrete steps would allow UPS and the Commission to determine whether a unified model can be implemented based on the operational data that exists today.

**III. THE POSTAL SERVICE CAN ALSO GATHER THE REQUISITE OPERATIONAL DATA IN CONNECTION WITH ITS ORDINARY ROUTE EVALUATION PROCESS.**

Even if the Postal Service does not have all the necessary data on hand, it could begin collecting the additional data needed for a unified model immediately, as part of its route evaluation process.

It is not necessary to collect data regarding collection mail, in-receptacle parcels, deviation parcels, and accountables for every single day and every single route over the course of the year to support “a single model” that “could produce improved estimates of variability.” Order No. 2792 at 65. Both of the models under consideration — Proposal Thirteen and the unified model proposed by UPS — use route data rolled up to the ZIP Code level. In both models, the time spent on delivery on a particular day is modeled as a function of the volume of the various mail streams delivered on that day. And both models appear to utilize operational data for most of the Postal data counts required, but need an operational data source for deviation parcels, in-receptacle parcels, accountables, and collections.



The models differ in how this gap is filled. Proposal Thirteen utilizes just 12 consecutive days of special study data for 300 ZIP Codes, while a unified model would utilize actual operational data as collected in the ordinary course of business.

Operational data does *not* need to be collected daily in order to improve the data quality present in Proposal Thirteen or to implement a unified model. As noted, Proposal Thirteen involves the collection of special study data over a (seasonally-biased) *two week* period, and locks in the results of those special studies for years, if not decades. This is a low benchmark, and *daily* operational data is not required to surpass it.

Accordingly, it would be a major step forward for the Postal Service to begin gathering counts of collection volumes, accountables, and parcels as part of its ordinary route evaluation process, conducted approximately once every three years for each route. This practice would likely generate sufficient data to implement the single-model approach within one year.<sup>5</sup> The Postal Service has provided no reason why it could not begin the process of collecting this data immediately.<sup>6</sup>

More frequent collection of data (*e.g.*, daily PTR data) may improve the model further. But, unless and until that occurs, the Postal Service should be directed to modify its current route evaluation process to collect the missing volume information as part of that process. Given the potential impact of modifying the route evaluation

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<sup>5</sup> While the many routes within a given ZIP Code are not typically evaluated on the same day, review of the Form 3999 data provided in this docket reveals that for most ZIP Codes, all of the routes within that ZIP Code are evaluated within the space of a year.

<sup>6</sup> The regular and periodic updating of Form 3999 data would also permit analysis of the effects of longer-term volume changes on delivery costs, as long as Form 3999 data is retained after routes are re-evaluated.

process as outlined above, and the relatively modest cost burden to do so, the Postal Service should implement these modifications as soon as practicable.

#### **IV. THE POSTAL SERVICE CAN IMPROVE ITS MODELS FOR SPECIAL PURPOSE ROUTES.**

It appears that the Postal Service investigated two possible approaches to special purpose routes: an operational data approach and a special studies approach.

The Postal Service's investigation of an operational data approach has apparently been held up by problems merging datasets from its "Time Attendance Collection System" ("TACS") and its PTR system. See Postal Service Response at 19 ("TACS and PTR are separate data systems that record data in different ways with dissimilar identifiers."). It is not clear why such complications exist, considering the PTR system just came online within the past few years. The PTR system should have been designed with data collection in mind and set up to generate data compatible with TACS and other operational databases of the Postal Service. Further, the extent of the "identifier" problem is not clear. Perhaps the Postal Service could create a crosswalk file that would map identities from TACS with identities from PTR. It is surprising that, after three months, all the Postal Service can report is that the "hurdles to implementation are substantial." *Id.*

Regarding the feasibility of a "special studies" approach for Special Purpose Routes, the Postal Service wants to undertake "more investigation" to see whether "this costly endeavor will yield data of the quality and magnitude required by the Commission." *Id.* Once again, the Postal Service appears to raise burden concerns without considering simplifying assumptions or alternative approaches that could generate meaningful progress. The Postal Service should do so and report back to the Commission.

**V. THE POSTAL SERVICE SHOULD EVALUATE ITS MODELS FOR SUNDAY ROUTES.**

The Commission also directed the Postal Service to investigate the “feasibility of updating the cost model used to assign the costs of Sunday delivery hours and parcel routes.” Order No. 2792 at 3. The Postal Service had previously reported that it was “currently investigating the feasibility of updating its cost model used to assign LDC 23 costs.” See Dkt. No. RM2015-7, *Reply Comments of USPS in Response to March 18<sup>th</sup> Comments* at 3 (May 13, 2015).

To UPS’s knowledge, however, the Postal Service has never provided a report on that investigation. In this latest filing, the Postal Service provides only a short statement that it is already using “actual operational time and volume information” in its cost models for Sunday Delivery, Postal Service Response at 20, which says nothing about how the data is collected, how often it is collected, or the *model* that is being used.

The Postal Service should be directed to provide a more complete report on its investigation into the feasibility of updating its *cost model* applicable to Sunday Delivery.

**VI. CONCLUSION**

UPS has, acting in good faith and in a spirit of constructive comments, outlined two potential solutions to the issues raised by the Postal Service — an approach based on PTR, MDD, and operational collections data, and an approach based on modifications to the “Form 3999” route evaluation process. The Commission should instruct the Postal Service to investigate both of these alternatives further. To facilitate this investigation and the participation of other postal stakeholders, the Commission should instruct the Postal Service to:

- Release a small, non-public sample of operational data from its PTR database, accompanied by DOIS data for the same dates and ZIP Codes. Ideally, this sample would include several days' worth of data from different times of the year;
- Describe in detail any potential sources of operational data regarding the collection process;
- Adjust its "Form 3999" route evaluation process to incorporate additional data on parcels, accountables, and collections, and confirm that data from older route evaluations will be retained even after those routes are re-evaluated;
- Present alternative approaches for the handling of special purpose routes that avoid the burden concerns raised by the Postal Service; and
- Provide an update on the feasibility of updating the *model* used for Sunday Delivery routes.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By: /s/ Steig D. Olson

Steig D. Olson  
Quinn Emanuel Urquhart & Sullivan, LLP  
51 Madison Ave., 22<sup>nd</sup> Floor  
New York, NY 10010  
(212) 849-7152  
steigolson@quinnemanuel.com

***Attorney for UPS***